

Message Text

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ACTION ARA-20

INFO OCT-01 ISO-00 AID-20 CIAE-00 COME-00 EB-11 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SPC-03

CIEP-02 LAB-06 SIL-01 OMB-01 AGR-20 DRC-01 /118 W

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R 291622Z OCT 73

FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC 1344

LIMITED OFFICIAL USE SECTION 1 OF 2 LA PAZ 6479

E.O. 11652: N/A

TAGS: EFIN BL

SUBJ: MONTHLY ECONOMIC REPORT

REFS: (A) STATE 115344; (B) STATE 128009; (C) LA PAZ 2103;

(C) STATE 071323.

1. MOST RECENT MONTHLY DATA KEYED ACCORDING STATE REFTELS IN PARAS 2, 3 AND 4.

2. DATA IN \$US MILLIONS:

A. GROSS CENTRAL BANK F/X RESERVES: AUG: 57.6. SEPT: 59.8.

B. NET CENTRAL BANK F/X RESERVES: AUG: 32.6. SEPT: 31.2.

1) NET IMF CREDIT: AUG: -19.7. SEPT: -19.7.

2) OVERDRAFT: AUG: -5.3. SEPT: -8.9.

DATA IN MILLIONS OF BOLIVIAN PESOS:

C. GROSS GOB BORROWING FROM CENTRAL BANK: AUG: 2,549.

SEPT: 2,794.

D. NET GOB BORROWING FROM CENTRAL BANK: AUG: 2,062. SEPT: 2,081.

E. MONEY SUPPLY, 1973: JUNE: 2,458. JULY: 2,648.

AUG: 2,624.

F. CUMULATIVE CENTRAL GOVERNMENT REVENUES: AUG: 1,391.3. SEPT: 1,567.8.

G. CUMULATIVE INTERNAL REVENUES: AUG: 577.6. SEPT: 654.8.

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H. CUMULATIVE CUSTOMS REVENUE: AUG: 389.1. SEPT: 450.1.

I. CUMULATIVE TREASURY EXPENDITURES: AUG: 1,695.8. SEPT: 1,927.9.
J. CUMULATIVE PESO DISBURSEMENTS, 1971 PROGRAM LOAN AND GRANT
(\$B MILLIONS): AUG: 159.3. SEPT: 162.1.
I. CUMULATIVE PESO DISBURSEMENTS, 1972 PROGRAM LOAN (\$B
MILLIONS): AUG: 141.6. SEPT: 167.9.

3. GROSS F/X ASSETS OF CENTRAL BANK (CB) AFTER DECLINING IN AUGUST BY US\$ 8.6 MILLION RECOVERED SOMEWHAT IN SEPTEMBER REFLECTING INCREASE IN CB'S OVERDRAFT POSITION. CB'S NET FOREIGN ASSETS DECLINED BY US\$ 15.2 MILLION DURING THIRD QUARTER. (THEY ARE NOW US\$ 5.3 MILLION LOWER THAN IMMEDIATELY FOLLOWING DEVALUATION AND QUICK-DISBURSEMENT OF US\$ 24 MILLION, BUT STILL US\$ 12.2 MILLION ABOVE LEVEL JUST BEFORE DEVALUATION). IN EARLY OCTOBER, IN ANTICIPATION OF THE GOB'S ECONOMIC MEASURES, CB SUFFERED FURTHER US\$ 4.0 MILLION LOSS. WE BELIEVE THAT THESE LOSSES CAN BE REVERSED (A) WHEN BACKLOG OF DELAYED MINERAL, COTTON AND OTHER EXPORT RECEIPTS ARE FINALLY ELIMINATED, AND (B) IF ALREADY PRESENTED ECONOMIC MEASURES AND FURTHER PROPOSED MEASURES ARE WIDELY ACCEPTED AS HOLDING SOME PROSPECT OF SOLVING FISCAL PROBLEM. DURING THIRD QUARTER, F/X PURCHASES BY THE CB WERE 28 PERCENT HIGHER THAN IN THIRD QUARTER OF 1972 WHILE SALES WERE 26 PERCENT HIGHER. IT SHOULD BE RECALLED, HOWEVER, THAT DURING THIRD QUARTER OF 1972 CB F/X SALES WERE UNUSUALLY HIGH DUE TO SPECULATIVE BUYING BEFORE OCTOBER DEVALUATION. SALES BY CB TO COMMERCIAL BANKS REACHED US\$ 61.2 MILLION IN THIRD QUARTER ABOUT US\$ 19 MILLION ABOVE THE AVERAGE PREVAILING IN FIRST TWO QUARTERS OF US\$ 42.2 MILLION. CAPITAL FLIGHT MAY HAVE BEEN FACTOR IN LARGE THIRD QUARTER SALES IN VIEW RUMORS OF LARGE FISCAL DEFICIT AND POSSIBLE DEVALUATION. F/X DELIVERY TO CB BY EXPORTERS HAS LAGGED SUBSTANTIALLY BEHIND EXPORT REGISTRATIONS. AMOUNT INVOLVED IS NOT PRECISELY KNOWN BUT IS ESTIMATED BY CB SOURCES AT ABOUT US\$ 15 MILLION ABOVE NORMAL LAG. THIS CONTRIBUTES TO APPEARANCE OF POOR B/P PERFORMANCE, BUT IN PART REFLECTS (A) CONTINUED RESISTANCE TO SPECIAL EXPORT TAX WHICH WAS EXPECTED BE CHANGED WITH THE ANNOUNCEMENT OF FURTHER ECONOMIC MEASURES OF OCTOBER 20 OR THEREABOUTS, (B) EXTENDED LAG CAUSED BY CLOSURE WILLIAMS HARVEY SMELTER IN UK, (C) DECISION COTTON GROWERS TO SUSPEND DELIVERIES UNDER EXISTING CONTRACTS, AND (D) PORT LIMITED OFFICIAL USE

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CONGESTION IN MATARANI AND ARICA AND ANTOFAGASTA. FULLY LIQUID CB F/X ASSETS ONLY US\$ 19.4 ON OCTOBER 19 DOWN FROM US\$ 24.0 MILLION AT END SEPTEMBER.

4. GOB TREASURY REVENUES IN THIRD QUARTER WERE \$B 557.7 MILLION, ONLY SLIGHTLY LARGER THAN SECOND QUARTER. APPARENTLY, YPFB FAILURE TO MAKE PAYMENT IN SEPTEMBER CONTRIBUTED TO LOWER THAN ESTIMATED LEVEL OF REVENUES IN THIRD QUARTER. IN FIRST WEEK OF

OCTOBER, HOWEVER, YPFB MADE A PAYMENT OF \$B 64 MILLION WHICH SHOULD INCREASE ESTIMATED FOURTH QUARTER REVENUES. SPECIAL EXPORT TAX COLLECTIONS IN AUGUST WERE \$B 28.1 MILLION AND \$B 36.4 MILLION IN SEPTEMBER, BRINGING CUMULATIVE TOTAL TO \$B 321.2 MILLION THUS FAR IN 1973.

5. THIRD QUARTER TREASURY DEFICIT ABOUT \$B 180 MILLION WHICH EQUIVALENT TO TOTAL FIRST SEMESTER TREASURY DEFICIT. THUS, ON BASIS TREASURY ACCOUNTS, DEFICIT THROUGH SEPTEMBER TOTALLED \$B 360 MILLION. CB GROSS FINANCING OF \$B 550 MILLION AND \$B 5 MILLION USE OF COUNTERPART AND OTHER RESOURCES RESULTED IN \$B 195 MILLION INCREASE IN DEPOSITS. CENTRAL BANK DATA (PARA 2 ABOVE) INDICATE CB GROSS FINANCING \$B 541 MILLION AND NET FINANCING ONLY \$B 275 MILLION THROUGH SEPTEMBER. CB NET FIGURE SMALLER BECAUSE INCLUDES MANY DEPOSITS OF DECENTRALIZED GOVERNMENT AGENCIES NOT INCLUDED IN TREASURY ACCOUNTS.

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ACTION ARA-20

INFO OCT-01 ISO-00 AID-20 CIAE-00 COME-00 EB-11 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SPC-03

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FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC 1345

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6. DURING THIRD QUARTER CB NET F/X RESERVES DECLINED BY ABOUT 37 PERCENT WHILE CB NET DOMESTIC ASSETS EXPANDED BY 47 PERCENT, RESULTING IN MONETARY BASE EXPANSION OF ONLY 5 PERCENT. THIS MODERATE EXPANSION NORMALLY COULD BE EXPECTED RESTRAIN PRICE INFLATION AND F/X LOSSES. PARTIAL INFLATION RATE INDICATORS, HOWEVER, SUGGEST THAT INTERNAL PRICES ARE INCREASING AT A HIGHER RATE THAN EXPECTED IN VIEW OF HEAVY F/X LOSSES. THIS ANOMALY COULD BE EXPLAINED BY (A) RAPID WORLD PRICE INCREASES OF IMPORT AND EXPORT GOODS, (B) RECENT GOB DICTATED PRICE

INCREASES, AND (C) BY F/X LOSSES WEIGHTED TOWARDS CAPITAL FLIGHT RATHER THAN IMPORTS. GROWING LOSS OF CONFIDENCE, EXPRESSED THROUGH SPECULATION, HOARDING, RUMORS OF DEVALUATION, ETC., ALL OF WHICH HAVE BEEN ENHANCED BY (A) ADVANCE LEAKS TO PUBLIC OF GENERAL NATURE OF ECONOMIC MEASURES, AND (B) GOB PROBLEMS IN ARRANGING WHEAT AND FLOUR IMPORTS AND IN CONTROLLING COFFEE AND MEAT PRICES AND EXPORTS.

7. OVERALL CREDIT EXPANSION BY THE BANKING SYSTEM THROUGH AUGUST WAS 55 PERCENT OF WHICH PRIVATE SECTOR ABSORBED ABOUT 40 PERCENT. PRIVATE SECTOR DEMAND AND OTHER DEPOSITS EXPANDED BY 30 PERCENT. MONETARY LIABILITY BASE OF COMMERCIAL BANKING SYSTEM HAS EXPANDED BY ABOUT 16 PERCENT THROUGH AUGUST INDICATING THAT CB HAS BEEN UNABLE TO REIN-IN THE ECONOMY, NOTWITHSTANDING THE 70 PERCENT MARGINAL RESERVE REQUIREMENT IMPOSED ON NEW DEMAND DEPOSITS SINCE JUNE 30, 1973 AND DESPITE ONLY MODERATE LIMITED OFFICIAL USE

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EXPANSION CB MONEY ISSUE. MOREOVER, THE EXPECTED REQUIREMENTS OF THE GOB FOR CREDIT DURING FOURTH QUARTER COULD CAUSE SEVERE RESTRICTIONS ON PRIVATE SECTOR WHEN PRIVATE SECTOR DEMAND IS UNUSUALLY STRONG. COMMERCIAL BANKS UNLIKELY BRING IN MUCH RESOURCES, BUT GOB AND STATE ENTERPRISES ARE ARRANGING EXTERNAL CREDITS. FNCB ARRANGING ABOUT US\$ 10 MILLION FOR YPFB, COMIBOL EXPECTING DRAW ABOUT US\$ 24 MILLION (FROM FIRST NATIONAL BANK OF BOSTON OR MARINE MIDLAND OR CONTINENTAL ILLINOIS OR COMBINATION INCLUDING ABOVE) FOR VARIOUS PROJECTS AND PAYMENT REGALIA, AND ENAF HAS ARRANGED US\$ 4.5 MILLION CREDIT FROM DEUTSCHE SUDAMERIKANISCHE BANK. ONLY SMALL PORTION THESE CREDITS, HOWEVER, WILL BE DRAWN IN 1973 AND EVEN SMALLER PORTION WILL IMPROVE CB F/X POSITION BY YEAR-END.

8. OFFICIAL GOB PRICE INDEX SHOWS INCREASE OF 15 PERCENT FROM DECEMBER TO SEPTEMBER OR AN ANNUAL RATE OF ABOUT 20 PERCENT. EMBASSY FOOD PRICE INDEX THROUGH SAME 9 MONTH PERIOD SHOWS INCREASE OF ABOUT 19 PERCENT. AS OF MID-OCTOBER, HOWEVER, EMBASSY INDEX SHOWS 35 PERCENT INCREASE, A JUMP OF 16 PERCENT MOST OF WHICH OCCURRED WHEN GOB ORDAINED PRICE INCREASES. THE UNWEIGHTED INCREASE IN OFFICIALLY CONTROLLED PRICES WAS APPROXIMATELY 19 PERCENT. NOW THAT GOB HAS MADE ITS PRICE DECISIONS MOST FOOD SHORTAGES APPEAR TO BE DISAPPEARING. MANY UNIONS EXPECTED PRESS FOR AND FINALLY RECEIVE WAGE INCREASES EXCEEDING \$B 120 PER MONTH GENERAL WAGE INCREASE PROCLAIMED BY GOB FOR ALL WORKERS AND EMPLOYEES EXCEPT THOSE ENJOYING BENEFITS OF PRE-DEVALUATION FOOD PRICES IN COMPANY COMMISSARIES. MILITARY ASKING \$B 150 PER MONTH INCREASE.

9. INDICATORS OF ECONOMIC ACTIVITY REFLECT INCREASING DEMANDS WHICH STIMULATED BY SALARY ADJUSTMENTS MADE IN JULY, FAVORABLE EXPORT PRICES

AND HIGH LEVEL OF CONSTRUCTION ACTIVITY. DEMAND FOR AUTO GAS THROUGH AUGUST INCREASED BY 3.4 PERCENT BY VOLUME WITH DEMAND SHIFTING TOWARDS HIGHER PRICED (HIGH OCTANE) GAS. KEROSENE AND BOTTLED GAS HAVE SHOWN STRONG INCREASES THROUGH AUGUST, 8.1 PERCENT AND 45.4 PERCENT RESPECTIVELY ON ANNUAL BASIS.

ELECTRICITY CONSUMPTION IN LA PAZ CONTINUES IN DOLDRUMS. CEMENT SALES THROUGH AUGUST INCREASED BY 8 PERCENT OVER COMPARABLE 1972 PERIOD. WHILE WAGE/SALARY SETTLEMENTS HAVE PROVIDED IMPETUS TO BUOYANT DEMAND, THEY HAVE ALSO CONTRIBUTED TO LIMITED OFFICIAL USE

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HIGHER PRICES AND WORSENING CB F/X POSITION.

10. LOOKING AHEAD TO PROSPECTIVE FOURTH QUARTER AND FULL 1973 OUTCOMES, SOME IMPROVEMENT IN NEX F/X RESERVE POSITION POSSIBLE WHEN AT LEAST PORTION DELAYED EXPORT EXCHANGE IS FINALLY RECEIVED AND IF DISBURSEMENT UNDER PROSPECTIVE BANK LOANS OCCURS SOON, BQT RECENT PRICE INCREASES, GOB DEFICIT AND CONSEQUENT MONETARY EXPANSION MAY WELL PREVENT ANY IMPROVEMENT BY YEAR-END.

11. FISCAL DEFICIT IN FOURTH QUARTER AND FOR FULL YEAR DIFFICULT TO PREDICT DUE MAINLY TO UNCERTAINTIES ON WHETHER COMIBOL WILL PAY REGALIA, WHETHER YPFB WILL PAY ROYALTY ON GAS AND TO WHAT EXTENT GOB WILL CUT EXPENDITURES.

REVENUES IN FOURTH QUARTER ESTIMATED AT \$B 690 MILLION IF COMIBOL AND YPFB DO NOT PAY THESE TAXES, BUT AT \$B 860 MILLION IF THEY BOTH DO. THERE IS ALSO SOME PROSPECT OF RECEIVING ABOUT \$B 30 MILLION IN PAYMENTS FROM ITC TIN BUFFER STOCK.

EXPENDITURES ESTIMATED AT \$B 1,590 MILLION (INCLUDING COST OF \$B 120 PER MONTH PAY INCREASE AND SAVINGS FROM SUBSIDY REDUCTION) IF NO CUTS AND \$B 190 MILLION IN COUNTERPART AND PADES FUNDS FLOW THROUGH TREASURY. WITH USUAL DEFERRAL OF ONE MONTH'S WAGE BILL (CREDITO AUTOMATICO) AND FURTHER CUTS OF \$B 100 MILLION, UNFINANCED EXPENDITURES REDUCED TO \$B 1,120 MILLION. THUS, FOURTH QUARTER UNFINANCED DEFICIT COULD BE ANYWHERE FROM \$B 220 MILLION TO \$- 520 MILLION AND 1973 UNFINANCED DEFICIT ANYWHERE FROM \$B 580 MILLION TO \$B 880 MILLION. EVEN LOWER FIGURE DANGEROUS GIVEN RECENT PRICE AND WAGE INCREASES AND MONEY SUPPLY EXPANSION.

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